



**North Carolina Department of Health and Human Services
Division of Mental Health, Developmental Disabilities and Substance Abuse Services**

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Michael F. Easley, Governor
Carmen Hooker Buell, Secretary

Arthur J. Robarge, Ph.D., MBA, Acting Director

February 13, 2001

MEMORANDUM:

TO: Executive Staff
Institution Directors

FROM: Phillip Hoffman

RE: OSBPM 2/12/01 Memo Update for Executive Order Number 3

Attached is a copy of the February 12, 2001, correspondence from David McCoy, State Budget Officer. While additional information will be forthcoming, here are initial comments on the seven items addressed in Mr. McCoy's memo:

1. Revisit reversion targets: DHHS is working with all divisions to finalize DHHS' overall response plan. Clarification of reversion targets for divisions should be forthcoming from DHHS.
2. Allotments: Allotments will be closely monitored for reversion compliance. Beginning with the 4th quarter, allotments will be prepared on a monthly basis.
3. Trust and Special funds: Additional information will be forthcoming as soon as we learn which budget codes and fund codes will be impacted by placing funds in "escrow" for the budget shortfall if needed.
4. Retirement System Contribution: Separate instructions regarding this item will be issued by the Office of the State Controller.
5. State grants to non-state entities: Division is currently reviewing this information with DHHS to determine how it may relate to funding for area programs. Our initial assumption at this time is that such funding is considered "necessary for the health or safety of the public" and any blanket restrictions will not apply. Other than allocations to area programs, the Division does not issue "grants" to entities (contracts are addressed below).
6. Contracts: Sets forth requirements related to contracts, including personal service contracts. We are seeking a clarification with respect to the application of this item to current contracts already in place. It certainly applies to contracts contemplated for award.
7. Payment of Liabilities in SFY 01: Agencies are to make every effort to liquidate SFY 01 liabilities in SFY 01 and not further complicate SFY 02 funding via the transfer of liabilities from SFY 01 to SFY 02.

As additional information is received, it will be shared with you and your staff. If you have any questions, please contact me at 919-733-7013 or Phillip.Hoffman@ncmail.net. This information is being posted on the Budget Office web site at <http://www.dhhs.state.nc.us/mhddsas/sections/budgetandplanning/budget/budmain.htm> under the heading of SFY 01 Budget Shortfall. Hard copies of this correspondence are NOT being distributed.

Attachment

cc: Institutions Business Officers Institution Budget Officers Budget Office Staff





State of North Carolina

Office of State Budget, Planning and Management

Michael F. Easley
Governor and Director
of the Budget

David T. McCoy
State Budget Officer

February 12, 2001

MEMORANDUM

TO: Department Heads, Chief Fiscal Officers and Personnel Officers

FROM: David McCoy *David McCoy*
State Budget Officer

SUBJECT: Executive Order Number 3

On February 8, 2001, Governor Easley signed Executive Order Number 3 authorizing a Declaration of Emergency providing for the further implementation of spending restrictions and directing the Office of State Budget, Planning and Management (OSBPM) to take necessary measures to insure a balanced budget for the 2000-2001 fiscal year. Accordingly, and pursuant to Executive Order Number 3, the following actions are directed:

1. Agencies are directed to revisit the reversion target previously established by OSBPM to insure that these targets will be met and to determine if further spending reductions can occur to allow exceeding these targets. While this office will not be revising your targets beyond current levels, the expanded seriousness of this budget deficit requires that all spending be curtailed to the maximum extent possible without jeopardizing public health, public safety, entitlements, or classroom instruction.
2. OSBPM will continue to analyze the availability of funds from now until June 30 to update projections. Based on our current projections, third quarter allotments will be revisited to determine if revisions should be made with emphasis on targeted reversions and projections of estimated availability. In addition, beginning with the fourth quarter, allotments will be made on a monthly basis with emphasis on public health and safety, payroll, utilities, mandatory contractual obligations, entitlements, and classroom instruction. Your budget analyst will be working closely with your budget officer to insure that these priorities are maintained without jeopardizing a balanced budget.

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3. OSBPM will be reviewing all special fund and trust fund balances to determine if such fund balances can be used to meet the current year budget deficit. Emphasis will be placed on the statutory nature of the budget code, the ability to draw from the fund balance without jeopardizing the financial integrity of the code, and insuring that no legally encumbered balances are utilized. Please have your budget officer begin an immediate analysis of these balances so that they will be prepared to discuss this matter when contacted by your budget analyst. Interest generated by statutory codes will be allocated to these codes should their balances not revert to the General Fund in June.
4. Beginning in February and continuing until June 30, 2001, the Governor has directed that all employer contributions to the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System be placed in a restricted reserve in the Office of the State Controller to be used as necessary to balance the current year budget. You will be receiving separate instructions from the Office of the State Controller directing agencies on central payroll and those not on central payroll on how to make contributions to this reserve. Please note that February contributions will be placed in this restricted reserve.
5. State grants to non-state entities are to be reviewed by all state agencies to determine if such grants will impact current year general fund reversions. No grants should be made unless such grants are necessary for the health or safety of the public, are directed to those who qualify for entitlements, impact educational requirements associated with classroom instruction, or are required to secure federal funds needed to maintain efforts of state programs in the above areas. Determination of compliance is delegated to department heads.
6. All contracts should be reviewed by the department head and contract awards shall be limited to contracts which impact health, safety or the financial integrity of the department. Personal services contracts may only be entered into if they affect public health or safety, or the financial integrity of the department.

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7. Agencies are directed to make every effort to insure that all liabilities incurred in the current fiscal year for which obligations are due are paid during the current fiscal year. It is critical that this budget problem not be delayed to the next fiscal year for resolution through the transfer of liabilities. This directive includes payments for services received from intergovernmental providers.

Spending restrictions noted in the Governor's memorandum of January 23, 2001 remain in effect. This office will intensify efforts to monitor spending and limit fund availability to agencies based on our projections of revenue. My budget staff is prepared to assist you as necessary as we work through this temporary budget crisis. Please feel free to contact us whenever necessary for assistance in this regard.

Thank you for your cooperation in this important matter.